

Sep 4, 2017

**Credit Headlines (Page 2 onwards):** Sembcorp Industries/ Sembcorp Marine, Century Sunshine Group Holdings Limited

**Market Commentary:** The SGD swap curve bear-flattened over Thursday, with swap rates trading 2bps higher across shorter tenors, and 1bps higher in the 7-year and 20-year tenors. The other tenors traded little changed. Markets in Singapore were closed on Friday for the Hari Raya Haji Holiday. Flows in SGD corporates were heavy on Thursday, with better buying seen in SIASP 3.13'27s, WINGTA 4.35%-PERPs, and mixed interest seen in HRAM 3.2%'21s and UOBSP 4%-PERPs. On Thursday, the spread on JACI IG Corporates fell 2bps to 189bps, while the yield on JACI HY Corp fell 10bps to 6.81%. On Friday, the spread on JACI IG Corporates rose 1bps to 190bps, while the yield on JACI HY Corp fell 1bps to 6.80%. 10y UST yields fell 1bps to 2.12% on Thursday after a weak inflation report and US housing data missed expectations. However, 10y USTs reversed its course and rose 5bps to 2.17% on Friday after ISM Manufacturing PMI data came in stronger than expected.

**New Issues:** Sun Hung Kai & Co has priced a USD400mn 5-year bond at 4.65%, tightening from initial guidance of 4.85% area. KEB Hana Bank has priced a USD350mn 5-year bond at 3mL+87.5bps, tightening from initial guidance of 3mL+90bps area. The expected issue ratings are 'A+/NR/NR'. Mitsubishi UFJ Financial Group Inc has priced a EUR750mn 7-year bond at CT7+45bps, tightening from initial guidance of CT7+55 to CT7+60bps. The issue ratings are 'NR/A1/A'. Ayala Corp has scheduled investor meetings for potential USD Perp issuance from 4 Sep. HT Global IT Solutions Holdings Ltd has scheduled investor meetings for potential re-tap of its HTGLOB 7%'22s from 4 Sep. Weichai International Hong Kong Energy Group Co Ltd has scheduled investor meetings for potential USD Perp (guaranteed by Weichai Power Co Ltd) issuance from 4 Sep. The expected issue ratings are 'BBB-/NR/BBB'. PT Steel Pipe Industry of Indonesia Tbk has scheduled investor meetings for potential USD bond issuance from 4 Sep. The expected issue ratings are 'NR/B2/B'.

**Table 1: Key Financial Indicators**

	4-Sep	1W chg (bps)	1M chg (bps)		4-Sep	1W chg	1M chg
iTraxx Asiax IG	74	-2	-6	Brent Crude Spot (\$/bbl)	52.47	1.12%	0.10%
iTraxx SovX APAC	18	0	-1	Gold Spot (\$/oz)	1,333.39	1.78%	5.92%
iTraxx Japan	43	1	2	CRB	180.95	1.75%	0.15%
iTraxx Australia	68	-4	-7	GSCI	386.38	1.93%	0.49%
CDX NA IG	57	-2	-1	VIX	10.13	-10.20%	1.00%
CDX NA HY	107	0	0	CT10 (bp)	2.166%	0.86	-9.63
iTraxx Eur Main	54	-2	2	USD Swap Spread 10Y (bp)	-5	1	-2
iTraxx Eur XO	233	-8	2	USD Swap Spread 30Y (bp)	-34	2	-3
iTraxx Eur Snr Fin	52	-3	2	TED Spread (bp)	32	0	7
iTraxx Sovx WE	6	0	0	US Libor-OIS Spread (bp)	16	0	1
iTraxx Sovx CEE/MEA	39	-5	-2	Euro Libor-OIS Spread (bp)	3	0	0
					4-Sep	1W chg	1M chg
				AUD/USD	0.797	0.03%	0.54%
				USD/CHF	0.961	-0.60%	1.21%
				EUR/USD	1.188	-0.81%	0.93%
				USD/SGD	1.357	-0.27%	0.28%
Korea 5Y CDS	61	2	2	DJIA	21,988	0.80%	-0.48%
China 5Y CDS	55	-2	-8	SPX	2,477	1.37%	-0.01%
Malaysia 5Y CDS	69	-3	-11	MSCI Asiax	664	0.57%	1.09%
Philippines 5Y CDS	60	-3	-10	HSI	27,793	-0.25%	0.84%
Indonesia 5Y CDS	100	-3	-10	STI	3,261	0.04%	-2.31%
Thailand 5Y CDS	53	-1	-8	KLCI	1,773	-0.13%	0.75%
				JCI	5,843	-1.23%	0.65%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
31-Aug-17	Sun Hung Kai & Co	Not Rated	USD400mn	5-year	4.65%
31-Aug-17	KEB Hana Bank	'A+/NR/NR'	USD350mn	5-year	3mL+87.5bps
31-Aug-17	Mitsubishi UFJ Financial Group Inc	'NR/A1/A'	EUR750mn	7-year	CT7+45bps
30-Aug-17	Lotte Shopping Business Management (Hong Kong) Ltd	'NR/Aa2/NR'	USD300mn	3-year	CT3+105bps
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

Source: OCBC, Bloomberg

**Rating Changes:** S&P has downgraded Quintis Ltd's (Quintis) corporate credit rating and the rating on its senior unsecured notes to 'D' from 'CCC-'. The rating action follows Quintis' failure to make an interest payment on its senior secured notes. S&P has affirmed China Gold International Resources Corp Ltd's (CGI) 'BBB-' corporate credit rating and the rating on the notes that it guarantees, while revising the outlook to stable from negative. The rating action follows the same rating action on CGI's parent, China National Gold Group Corp (CNG). The rating action on CNG reflects S&P's expectation that the company's profit, cash flow and leverage ratios will improve over the next two years. S&P has assigned Weichai Power Co Ltd's (Weichai) proposed USD senior perpetual securities an issue rating of 'BBB-'. The issue rating is one notch lower than the corporate credit rating on Weichai due to potential distribution deferral risk on the notes. Moody's has affirmed Ronshine China Holdings Limited's (Ronshine) 'B2' corporate family rating and 'B3' senior unsecured rating. The outlook has been revised to negative from stable. The rating action reflects Ronshine's increased level of refinancing risk, stemming from its escalating short-term debt and declining cash balances, as well as higher financing risk because of higher-than-expected debt leverage. Moody's has affirmed China Evergrande Group's (Evergrande) 'B2' corporate family rating and 'B3' rating on its senior unsecured notes. The outlook has been changed to positive from stable. The rating action follows Evergrande's announcement of its 1H2017 results and deleveraging plans. Moody's has downgraded the long-term senior unsecured debt and issuer ratings of Volkswagen Bank GmbH (VW Bank) by three notches to 'A3' from 'Aa3'. Similarly, Moody's has downgraded Volkswagen Financial Services Japan Ltd's and Volkswagen Financial Services Australia Pty Ltd's senior unsecured ratings to 'A3' from 'A2'. The outlook is negative. The rating action reflects the change in methodology that Moody's applies on VW Bank due to the reorganization of VW Bank's financial services operations. Moody's has affirmed Axiata Group Berhad's (Axiata) 'Baa2' issuer rating and the rating on its senior unsecured debt. The outlook is stable. The rating action reflects Axiata's diversified revenue sources, solid market positions and strong relationships with the government of Malaysia. However, Moody's expects Axiata's cash flows to be strained over the next one to two years, due to the company's progressive dividend payout policy and elevated capital expenditure. Moody's has affirmed Mapletree Logistics Trust's (MLT) 'Baa1' issuer rating and the 'Baa3' rating on its subordinated securities, while upgrading the outlook to stable from negative. The rating action reflects Moody's expectation that MLT's credit profile will improve following the equity-funded acquisition of its new logistic property in Hong Kong, as well as a further reduction of debt through the application of the proceeds from the sale of assets. Moody's has assigned Tunas Baru Lampung Tbk (P.T.) (TBLA) a corporate family rating of 'Ba3'. The outlook is stable. The rating action reflects the dual-commodity business model of TBLA, which are underpinned by favorable long-term, domestic demand fundamentals. However, the ratings are constrained by TBLA's small scale of operations, exposure to cyclical crude palm oil prices, and uncertainties on securing the import quotas for raw sugar from Indonesia's trade ministry. Fitch has downgraded Global A&T Electronics Ltd's (GATE) issuer default rating to 'C' from 'CC' following GATE's announcement that it is unable to pay the coupon on its notes. Fitch has affirmed Ergon Energy Queensland Pty Ltd's (EEQ) issuer default rating and ratings and senior unsecured rating at 'AA'. The outlook has been revised to positive from stable. The rating action follows Fitch's revision of the outlook on the State of Queensland's 'AA' issuer default rating. Fitch has assigned PT Steel Pipe Industry of Indonesia Tbk (Spindo) an issuer default rating of 'B'. The outlook is stable. The rating action reflects Spindo's small scale and lack of vertical integration compared to other steel product manufacturers globally. Similarly, S&P has assigned Spindo an issuer rating of 'B' (outlook stable), while Moody's has assigned Spindo a corporate family rating of 'B2' (outlook stable). Fitch has assigned Mitsubishi UFJ Financial Group Inc's (MUFG) senior unsecured notes a rating of 'A'. The rating action reflects MUFG's sound domestic franchises, solid liquidity profiles in yen, sound asset quality, adequate capital positions, and modest profitability. Fitch has affirmed Stanwell Corporation Limited's (Stanwell) 'AA' issuer default rating. The outlook has been revised to positive from stable. The rating action follows Fitch's revision for the State of Queensland to Positive from Stable.

## Credit Headlines:

**Sembcorp Industries ("SCI") / Sembcorp Marine ("SMM"):** SMM has announced that it has terminated two contracts relating to the two jack-up rigs ordered by Perisai Petroleum Teknologi Bhd ("PPT"). PPT is distressed and had defaulted on its bonds due October 2016. The contractual value of the two rigs aggregate ~USD420mn. Though PPT had paid deposits upon the order of the rigs, SMM may potentially have to recognize revenue reversals given the termination of these orders. We will monitor the situation and update accordingly. (Company, OCBC)

## Credit Headlines (Cont'd):

**Century Sunshine Group Holdings Limited ("CSG"):** CSG reported preliminary 1H2017 results. Revenue jumped 23.1% y/y to HKD1.52bn, driven by increase in sales for both its fertilizer segment as well as magnesium products segment. The fertilizer segment revenue increased 25.4% y/y to HKD855.1mn, in part driven by the consolidation of Shangdong Hongri's ("SHHR") results from April 2017 onwards due to the completion of the acquisition. Sales volume jumped 28.9% to 414,841 tonnes, in part driven by the additional 97,250 tonnes attributed from SHHR and incremental sales of HKD197.0mn. As such, excluding the impact of the SHHR acquisition, segment volumes would have been flattish while segment sales would have dipped. Management had previously indicated that the domestic fertilizer industry remains challenging with strong competitive pressures. Management had also commented that production at CSG's Jiangsu fertilizer plant decreased ~6% y/y on technical tests on new products. The fertilizer segment margin also fell from 27.6% (1H2016) to 23.0% (1H2017). The margin compression was driven in part by the SHHR acquisition, which increased the product mix contribution by compound fertilizers (which is less lucrative compared to organic fertilizers as well as silicon magnesium fertilizers). For the magnesium segment, revenue increased 18.5% y/y to HKD503.0mn. This was driven by the surge in volume sold by 38.9% to 22,238 tonnes. However, due to the shift in product mix to more commoditized basic magnesium products (versus rare-earth magnesium alloys), ASP fell 12.4% to HKD 22,349 per tonne. This caused magnesium margins to compress to 25.0% (1H2017) compared to 30.7% (1H2016). It should be noted that the bulk of incremental volume sold was basic magnesium ingots from CSG's Xinjiang production base (4,560 tonnes). As mentioned previously, CSG intent is to ramp up production at its Xinjiang facility focusing on simpler product lines first before starting on more complex products. As such, in aggregate, CSG's gross margin compressed to 24.5% (1H2017) from 30.0% (1H2016). Net profit remained stable at HKD130.0mn, though net margin compressed from 10.4% (1H2016) to 8.5% (1H2017) due to the gross margin compression. It should be noted that CSG benefitted from a HKD41.0mn gain on bargain purchase due to its SHHR acquisition during the quarter. This was however offset again the increases in SG&A expenses (+25%) to HKD141.9mn for 1H2017 due to additional needs as a larger organization. Net gearing increased slightly from 21% (end-2016) to 28% (end-1H2017) due to higher borrowings. Cash over current borrowings remains manageable at 1.2x. In aggregate, performance has been as expected given the integration of SHHR (which was a distressed entity and hence had poor performance upon acquisition). We note that terms for the restructuring between CSG and Group Sense International Limited ("GSIL"), its partially owned listed subsidiary, has been announced. In summary, CSG's magnesium business will be sold to GSIL in a non-cash transaction totalling HKD1.73bn. HKD1.31bn will be met by GSIL in new shares of GSIL issued to CSG. The balance will be funded by a HKD420mn convertible bond issued by GSIL to CSG. Post transaction, CSG will continue to consolidate GSIL's results and report the magnesium segment accordingly (though there would be a larger proportion of the magnesium segment earnings allocated to non-controlling interest). We are still reviewing the transaction details and will update accordingly. We currently hold CSG at Neutral Issuer Profile. (Company, OCBC)

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