

February 6, 2017

Credit Headlines (Page 2 onwards): National Australia Bank Ltd.

Market Commentary: The SGD dollar swap curve traded upwards last Friday, with swap rates trading 2-4bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in GUOLSP 4%'22s, GENSSP 5.13%'49s, and mixed interest in OLAMSP 7%'49s. In the broader dollar space, the spread on JACI IG Corporates fell 1bps to 195bps while the yield on JACI HY Corporates fell 1bps to 6.85%. 10y UST yields fell 1bps to 2.46%, following the U.S. payrolls report which showed the smallest increase in average hourly earnings since August.

Rating Changes: Moody's upgraded Atlas Iron Limited's (Atlas) corporate family rating (CFR) to 'B3' from 'Caa3' and senior secured bank credit facility to 'B3' from 'Caa3'. Both ratings have been assigned a stable outlook. The rating action reflects the significant improvements in the company's credit metrics following its AUD54mn of debt reduction in January 2017, earlier debt repayments, and an improved earnings generating ability – which has led to a step change in the company's debt levels and financial profile. Moody's upgraded Daimler AG's (Daimler) long-term ratings to 'A2' from 'A3'. In addition, Moody's upgraded all long-term ratings of its rated subsidiaries to 'A2' from 'A3'. The outlook has also been revised to stable from positive. The rating action reflects the company's track record of a robust operational performance in recent years supported by a continued successful product renewal program, its regional presence, and the ongoing expansion of Daimler's product portfolio. Moody's affirmed NEC Corporation's (NEC) 'Baa2' issuer and senior unsecured debt ratings. In addition, Moody's revised the ratings outlook to negative from stable. The rating action reflects Moody's concerns over NEC's ability to execute its business plan, and the increased uncertainty regarding its ability to generate sustainable earnings appropriate for a Baa2 rating in a more challenging operating environment.

Table 1: Key Financial Indicators

	6-Feb	1W chg (bps)	1M chg (bps)		6-Feb	1W chg	1M chg
iTraxx Asiax IG	108	-6	-6	Brent Crude Spot (\$/bbl)	56.91	3.04%	-0.33%
iTraxx SovX APAC	31	-2	-3	Gold Spot (\$/oz)	1,224.73	2.43%	4.44%
iTraxx Japan	54	1	-2	CRB	193.20	-0.12%	-0.18%
iTraxx Australia	93	--	-6	GSCI	400.38	0.73%	0.55%
CDX NA IG	64	-2	0	VIX	10.97	3.69%	-3.09%
CDX NA HY	108	1	1	CT10 (bp)	2.454%	-3.44	3.44
iTraxx Eur Main	71	-1	3	USD Swap Spread 10Y (bp)	-8	2	5
iTraxx Eur XO	290	-9	4	USD Swap Spread 30Y (bp)	-41	1	8
iTraxx Eur Snr Fin	87	-3	-1	TED Spread (bp)	54	1	6
iTraxx Sovx WE	23	0	2	US Libor-OIS Spread (bp)	35	1	1
iTraxx Sovx CEEMEA	72	-4	-3	Euro Libor-OIS Spread (bp)	2	0	-1
					6-Feb	1W chg	1M chg
				AUD/USD	0.767	1.48%	5.01%
				USD/CHF	0.992	0.33%	2.62%
				EUR/USD	1.078	0.82%	2.38%
				USD/SGD	1.408	0.96%	2.23%
Korea 5Y CDS	46	-2	0	DJIA	20,071	-0.11%	0.54%
China 5Y CDS	105	-6	-7	SPX	2,297	0.12%	0.90%
Malaysia 5Y CDS	125	-8	-6	MSCI Asiax	549	0.08%	4.07%
Philippines 5Y CDS	93	-7	-10	HSI	23,228	-0.62%	3.22%
Indonesia 5Y CDS	144	-7	-6	STI	3,050	-0.48%	2.95%
Thailand 5Y CDS	68	-5	-8	KLCI	1,687	-0.29%	0.71%
				JCI	5,361	0.90%	0.26%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Jan-17	China Water Affairs Group Ltd.	"BB+/Ba1/NR"	USD300mn	5NC3	5.5%
25-Jan-17	Jain International Trading BV	"B+/NR/B+"	USD200mn	5NC3	7.375%
24-Jan-17	Vedanta Resources Plc	"B+/B3/NR"	USD1bn	5.5-year	6.375%
24-Jan-17	Fujian Zhanglong Group Co. Ltd. (re-tap)	"NR/NR/BB+"	USD150mn	3-year	4.8%
23-Jan-17	Industrial Bank of Korea	"AA-/Aa2/AA-"	USD300mn	3-year	CT3+85bps
23-Jan-17	Shui On Development (Holding) Ltd.	"NR/NR/NR"	USD500mn	4-year	5.875%
23-Jan-17	Siam Commercial Bank PCL	"BBB+/Baa1/BBB+"	USD400mn	5.5-year	CT5+150bps
23-Jan-17	Biostime International Holdings Ltd. (retap)	"BB-/Ba3/NR"	USD200mn	5-year	104.50

Source: OCBC, Bloomberg

Rating Changes (Cont'd):

Moody's has placed on review for downgrade Sime Darby Berhad's (Sime Darby) 'Baa1' issuer rating and 'Baa1' senior unsecured debt rating on the sukuk issued by Sime Darby Global Berhad (wholly-owned subsidiary of Sime Darby). In addition, Moody's placed on review for downgrade the '(P)Baa1' rating on the senior unsecured medium-term note program of Sime Darby Global Berhad. The rating action reflects Moody's view that the listing of Sime Darby's Plantation and Property businesses will lead to reduced diversification, scale and cash flows, and therefore a weaker credit profile.

Credit Headlines:

National Australia Bank Ltd. ("NAB"): NAB released its first quarter trading update with unaudited cash earnings of AUD1.6bn ~1% lower y/y. Revenue was up 1% due to growth in lending and higher trading income however this performance was overshadowed by a 5% rise in expenses from higher personnel costs (salary increases and redundancies). Bad and doubtful debt charges continue to stabilize following the trend from 2HFY2016 declining 23% to AUD164mn. That said, asset quality issues remain with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances rising marginally to 0.9% as at 31 December 2016 from 30 September 2016 (0.85%). Capital ratios have weakened due to payment of the 2016 final dividend with NAB's CET1 ratio at 9.5% as at 31 December 2016, however management have indicated the desire to issue additional capital securities to improve capital ratios which have recently weakened compared to FY2015 (CET1: 10.2%) due to application of higher risk weights to mortgage loan exposures in 2HFY2016. The results announcement does not alter NAB's Neutral issuer profile in our view with results more or less on trend. We expect NAB to continue to proactively manage its capital position to mitigate on-going restructuring and soft operating conditions. (Company, OCBC)

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