

Sep 8, 2017

**Credit Headlines (Page 2 onwards):** CWT Ltd, Nam Cheong Ltd, Pacific Radiance Ltd

**Market Commentary:** The SGD swap curve traded downwards yesterday, with swap rates trading 2-4bps lower across most tenors. The 7-year and 12-year tenors traded little changed. Flows in SGD corporates were heavy, with better buying seen in WINGTA 4.35%-PERPs, SIASP 3.13%'27s, HSBC 4.7%-PERPs, and mixed interest seen in WINGTA 4.08%-PERPs. In the broader dollar space, the spread on JACI IG Corp traded little changed at 192bps, while the yield on JACI HY Corp fell 1bps to 6.78%. 10Y UST yields fell 7bps to 2.04%, after Draghi offered little new policy insight at the ECB meeting, US initial jobless claims came in higher than expected, and risk-off sentiment was sparked as investors braced for the impending Hurricane Irma, which could potentially become the most expensive storm in US history.

**New Issues:** Sumitomo Life Insurance Co has priced a USD1.34bn 60NC10 bond at 4.00%, tightening from a revised IPT of 4.125%. The expected issue ratings are 'NR/A3/A-'. Santos Finance Ltd has priced a USD800mn 10-year bond at CT10+210bps, tightening from initial guidance of CT10+230bps. The expected issue ratings are 'BBB-/NR/NR'. Weichai International Hong Kong Energy Group Co has priced a USD775mn Perp NC5 (guaranteed by Weichai Power Co) at 3.75%, tightening from initial guidance of 4.25%. The expected issue ratings are 'BBB-/NR/BBB'.

**Rating Changes:** S&P has assigned Bank of Nova Scotia (Australia Branch) an 'A+' issuer credit rating. A similar rating was applied on its senior unsecured notes. The outlook is stable. The rating mirrors the rating on its parent bank, The Bank of Nova Scotia. Moody's has assigned Ausgrid Finance Pty Ltd's (AGF) senior secured notes a rating of 'Baa1'. The outlook is stable. AGF is the finance vehicle of Ausgrid Group. The rating benefits from a one-notch uplift over Ausgrid Group's 'Baa2' rating to reflect Moody's assessment of a likelihood of support by its shareholders.

**Table 1: Key Financial Indicators**

|                    | 8-Sep | 1W chg (bps) | 1M chg (bps) |                            | 8-Sep    | 1W chg | 1M chg |
|--------------------|-------|--------------|--------------|----------------------------|----------|--------|--------|
| iTraxx Asiax IG    | 79    | 4            | -1           | Brent Crude Spot (\$/bbl)  | 54.60    | 3.51%  | 4.72%  |
| iTraxx SovX APAC   | 20    | 3            | 1            | Gold Spot (\$/oz)          | 1,349.79 | 1.85%  | 7.04%  |
| iTraxx Japan       | 44    | 1            | 4            | CRB                        | 182.87   | 3.39%  | 0.98%  |
| iTraxx Australia   | 69    | 1            | -6           | GSCI                       | 392.34   | 1.64%  | 1.93%  |
| CDX NA IG          | 59    | 2            | 0            | VIX                        | 11.55    | 2.94%  | 5.38%  |
| CDX NA HY          | 107   | 0            | 0            | CT10 (bp)                  | 2.042%   | -12.35 | -21.97 |
| iTraxx Eur Main    | 53    | -1           | 0            | USD Swap Spread 10Y (bp)   | -4       | 1      | 0      |
| iTraxx Eur XO      | 233   | 0            | -1           | USD Swap Spread 30Y (bp)   | -34      | 1      | -2     |
| iTraxx Eur Snr Fin | 51    | -1           | 0            | TED Spread (bp)            | 28       | -5     | 0      |
| iTraxx Sovx WE     | 6     | 0            | 1            | US Libor-OIS Spread (bp)   | 16       | 1      | 2      |
| iTraxx Sovx CEEMEA | 44    | 4            | 2            | Euro Libor-OIS Spread (bp) | 3        | 0      | 0      |
|                    |       |              |              |                            |          |        |        |
|                    |       |              |              |                            | 8-Sep    | 1W chg | 1M chg |
|                    |       |              |              | AUD/USD                    | 0.807    | 1.18%  | 1.96%  |
|                    |       |              |              | USD/CHF                    | 0.948    | 1.76%  | 2.75%  |
|                    |       |              |              | EUR/USD                    | 1.203    | 1.46%  | 2.39%  |
|                    |       |              |              | USD/SGD                    | 1.339    | 1.33%  | 1.79%  |
|                    |       |              |              |                            |          |        |        |
| Korea 5Y CDS       | 70    | 10           | 13           | DJIA                       | 21,785   | -0.49% | -1.36% |
| China 5Y CDS       | 60    | 5            | -3           | SPX                        | 2,465    | 0.31%  | -0.40% |
| Malaysia 5Y CDS    | 70    | 1            | -8           | MSCI Asiax                 | 661      | -0.39% | -0.12% |
| Philippines 5Y CDS | 62    | 2            | -6           | HSI                        | 27,653   | -1.07% | -0.72% |
| Indonesia 5Y CDS   | 101   | 1            | -8           | STI                        | 3,235    | -1.29% | -2.51% |
| Thailand 5Y CDS    | 53    | 1            | -5           | KLCI                       | 1,778    | 0.28%  | -0.20% |
|                    |       |              |              | JCI                        | 5,829    | -0.60% | 0.32%  |

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

| Date     | Issuer  | Ratings        | Size      | Tenor    | Pricing      |
|----------|---|----------------|-----------|----------|--------------|
| 7-Sep-17 | Sumitomo Life Insurance Co                      | 'NR/A3/A-'     | USD1.34bn | 60NC10   | 4.00%        |
| 7-Sep-17 | Santos Finance Ltd                              | 'BBB-/NR/NR'   | USD800mn  | 10-year  | CT10+210bps  |
| 7-Sep-17 | Weichai International Hong Kong Energy Group Co | 'BBB-/NR/BBB'  | USD775mn  | Perp NC5 | 3.75%        |
| 6-Sep-17 | China Petroleum Corp                            | 'AA-/A1/NR'    | USD700mn  | 3-year   | CT3+87.5bps  |
| 6-Sep-17 | China Petroleum Corp                            | 'AA-/A1/NR'    | USD1.4bn  | 5-year   | CT5+97.5bps  |
| 6-Sep-17 | China Petroleum Corp                            | 'AA-/A1/NR'    | USD750mn  | 10-year  | CT10+120bps  |
| 6-Sep-17 | China Petroleum Corp                            | 'AA-/A1/NR'    | USD400mn  | 30-year  | 4%           |
| 6-Sep-17 | AYC Finance Ltd                                 | Not Rated      | USD400mn  | Perp NC5 | 5.125%       |
| 6-Sep-17 | HPHT Finance (17) Limited                       | 'BBB+/Baa1/NR' | USD500mn  | 5-year   | CT5+117.5bps |

Source: OCBC, Bloomberg

**Rating Changes (Cont'd):** Moody's has assigned Haitong International Securities Group Limited (Haitong International) an issuer rating of 'Baa2'. The outlook is stable. The rating benefits from a two-notch uplift over Haitong International's standalone rating of 'Ba1' based on Moody's assumption that its parent, Haitong Securities Co Ltd, would receive a high level of support from the Shanghai municipal government in times of stress. The 'Ba1' standalone rating reflects Haitong International's good franchise in Hong Kong's capital markets, flexible funding sources and relatively low leverage, but it is constrained by its rapid growth which challenges its risk management, as well as the volatility in its profitability. Moody's has assigned Teachers Mutual Bank Limited's (TMB) a subordinated debt rating of 'Baa3'. The rating is two notches below the bank's adjusted Baseline Credit Assessment of 'Baa1', which reflects the subordination of the notes and the uncertainty associated with the timing of a potential write-off. Moody's has downgraded Bank of Communications Co Ltd's (BoCom) deposit rating to 'A3' from 'A2', its Baseline Credit Assessment to 'Ba1' from 'Baa3', and its Counterparty Risk Assessment (CRA) to 'A3' from 'A2'. At the same time, Moody's has also downgraded BoCom's HK branch's senior unsecured rating and CRA to 'A3' from 'A2'; Azure Orbit International Finance Ltd and Azure Orbit III International Finance Ltd's (Bocom's indirectly wholly-owned subsidiaries) senior unsecured debt ratings to 'A3' from 'A2'; Bank of Communications Financial Leasing's (BoCom Leasing) issuer ratings to 'A3' from 'A2'; Bocom Leasing Development Hong Kong Company Limited's (BLDHK) long-term issuer rating to 'Baa1' from 'A3', and Azure Nova International Finance Limited's senior unsecured programme and notes rating to 'A3' from 'A2'. The outlook on the ratings are stable. The rating action reflects BoCom's weaker funding profile compared to other state-owned Chinese banks, as well as its pressured profitability due to increasing market funding costs.

## Credit Headlines:

**CWT Ltd ("CWT"):** HNA Belt and Road Investments (Singapore) Pte Ltd, a wholly-owned subsidiary of HNA Holding Group Co. Limited ("HNA HK") has issued a formal offer announcement to acquire CWT. HNA HK, listed on the Hong Kong Stock Exchange is ~66% owned by HNA Group Co. Ltd ("HNA Group") via holding companies. HNA HK's shareholders had approved for the deal to go ahead yesterday at a general meeting, thereby fulfilling the third and outstanding pre-condition. Despite earlier negative headlines surrounding HNA Group's financial standing, one of the two joint advisers to the offeror (a Chinese investment bank), has confirmed that sufficient financial resources are available to the offeror to complete the deal. With the confirmation of financing in place, we see the likelihood of the deal being completed as high. As a recap, in show of support for the deal, large shareholders including C&P Holdings Pte Ltd and others (collectively holding a 65.1%-stake in CWT) have given irrevocable written undertakings to tender their shares. Key management will also stay on for a three year period, providing continuity to the business over the period when CWT's bonds are outstanding (longest tenured bond matures in March 2020). As at 30 June 2017, HNA HK owns an office building in London, eight golf courses in USA and a golf club and hotel business in China, with book value net assets of HKD3.9bn (~SGD671.8mn). CWT is expected to be delisted from the SGX and become an indirect subsidiary of HNA HK. There is no delisting put for CWT's bonds. Going forward, we expect availability of public disclosures via HNA HK and would continue to cover CWT via HNA HK. In 1H2017, HNA HK reported a loss for the period from continuing operations of HKD25.6mn (SGD4.4mn). In contrast, CWT's profit after tax was SGD82.0mn during the same time period. In effect, until such time HNA HK pursues further business expansions/ acquisitions, CWT would be the main profit generator of HNA HK. CWT bondholders would continue to benefit from being nearer to the operating assets versus debt holders at the HNA HK level. We are keeping our underweight on both CWT bonds and keeping issuer profile at Neutral for now. The trading halt on CWT's securities has been lifted. (Company, OCBC)

## Credit Headlines (Cont'd):

**Nam Cheong Ltd ("NCL"):** NCL had held its second informal noteholders meeting yesterday evening, and have made public the slides used during the presentation. In summary, NCL disclosed that it had USD424mn in total borrowings outstanding, and that after paying down collateral to meet portions of secured debt, the total unsecured debt outstanding was estimated to be USD336mn (both bonds and unsecured bank debt). As per the TT International restructuring we reviewed as a case study (refer [Nam Cheong Limited: Credit Update - 17 August 2017](#)), NCL's financial advisors have evaluated and determined that 35% of its unsecured debt (USD116mn) was non-sustainable and will be equitized into newly issued shares of NCL. The tentative proposal was to issue 17 NCL shares for 1USD in non-sustainable debt, which based on the most recent closing price of SGD0.02 per share translates into a recovery of ~25% on the non-sustainable portion. For the balance 65% of unsecured debt deemed sustainable, it would be extended for 7 years, with amortization of the debt to beginning only from the 4<sup>th</sup> year onwards (target is for 10% , 20, 30% and 40% of principle to be paid each year from the 4<sup>th</sup> year onwards). Coupon on the restructured debt would be lower as well at 4% per annum (of which half is paid in new shares issued rather than cash). For the sustainable portion of debt, investors also have the choice of getting cash outright (recovery of roughly 5% - 20% on the sustainable portion of debt depending on the participation of bondholders, with more participants meaning less recovery), or share conversion at 1USD to 34 NCL new shares (the sustainable portion of debt is worth more compared to the unsustainable portion of debt). For next steps, NCL would be filing in court in September to convene a Creditor's Meeting, with the meeting targeted for 24 November 2017. By then the terms of the restructuring will be finalized and noteholders will then vote. 75% in value across all classes of creditors will need to vote yes for the Scheme of Arrangement to go through. We will continue to monitor the situation closely. (Company, OCBC)

**Pacific Radiance Ltd ("PACRA"):** PACRA had announced that as a follow up to its 2Q2017 results as well as disclosure on current financial standing (refer to [OCBC Asian Credit Daily - 14 August 2017](#)), PACRA had commenced discussion with its bank lenders in relation to PACRA's financial position and capital structure. PACRA indicated that they and their bank lenders intend to work towards a consensual restructuring of PACRA's borrowings. As a reminder, PACRA reported USD51.8mn in short-term borrowings and SGD100mn in bonds will be due in August 2018. It should be noted that PACRA had recently received approval and likely drew down on the government-backed IE Singapore and Spring Singapore facilities (refer to [OCBC Asian Credit Daily - 9 June 2017](#)) which total SGD85mn (the Singapore Government takes a 70% credit exposure on the facilities, with the balance being bore by the lenders). It is uncertain if these facilities have cross-default clauses. It should also be noted that PACRA had already previously negotiated with banks late last year and termed out its vessel financing (refer to [OCBC Asian Credit Daily - 26 October 2016](#)). Based on the restructuring plans executed by PACRA's peers in the offshore marine sector, we continue to believe that as part of the consensual restructuring between PACRA and its banks, the restructuring of PACRA's bonds could be one of requisites for the reorganization. For example, in the case of ASL Marine Holdings Ltd, its bonds were extended by 3 years. PACRA would likely be calling for an informal noteholders meeting in the near future to brief noteholders on its intentions. We continue to hold PACRA's Issuer Profile at Negative and have previously withdrawn our bond recommendation on the PACRA 4.3 '18s post PACRA's 2Q2017 results as we believed that a restructuring of the bond could be imminent. We will continue to monitor the situation closely. (Company, OCBC)

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