

Jul 24, 2017

Credit Headlines (Page 2 onwards): CapitaLand Ltd, Singapore Telecommunications Ltd, Sabana Shari'ah Compliant Industrial REIT

Market Commentary: The SGD swap curve bull-flattened on Friday, with swap rates trading 4-6bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in LBBW 3.75%'27s, and mixed interest seen in HSBC 4.7%-PERPs, HYFSP 6%-PERPs, UOBSP 3.5%'29s. In the broader dollar space, the spread on JACI IG Corporates traded little changed at 190bps, while the yield on JACI HY Corporates fell 2bps to 6.86%. 10y UST yields fell 2bps to 2.24% yesterday, as lower crude oil prices dragged yields down.

New Issues: There were no new issuances in the Asia ex-Japan G3 currencies or the Singapore Dollar space.

Rating Changes: S&P has downgraded BIS Industries Ltd's (Bis) corporate credit rating to 'CC' from 'CCC-' while affirming the company's payment-in-kind notes that was issued by Bis's related entity Artsonig Pty Ltd (Artsonig) at 'C'. The outlook on the corporate credit rating is negative. The rating action reflects the debt for equity swap that BIS announced, which is highly probable given a reduction in debt is needed for the on-going viability of the business. S&P has upgraded Samsung Electronics Co Ltd's (SEC) corporate credit rating and issuer ratings to 'AA-' from 'A+'. The outlook is stable. The rating action reflects S&P's view that SEC will maintain its robust profitability, generate strong free operating cash flows and increase its cash holdings over the next two years. S&P has upgraded Sharp Corp's (Sharp) corporate credit rating to 'B+' from 'B-', while upgrading its senior unsecured debt rating to 'B' from 'B-'. The outlook is stable. The rating action reflects Sharp's operating performance which exceeded S&P's expectation and the cost saving benefits that Sharp have enjoyed since joining Hon Hai Precision Industry Co Ltd's corporate group in 2016.

Table 1: Key Financial Indicators

	24-Jul	1W chg (bps)	1M chg (bps)		24-Jul	1W chg	1M chg
iTraxx Asiax IG	84	0	0	Brent Crude Spot (\$/bbl)	48.00	-0.87%	5.40%
iTraxx SovX APAC	21	-1	2	Gold Spot (\$/oz)	1,254.30	1.64%	0.77%
iTraxx Japan	39	0	0	CRB	176.66	0.21%	5.32%
iTraxx Australia	79	-2	-4	GSCI	371.17	-0.19%	4.91%
CDX NA IG	57	-1	-3	VIX	9.36	-1.58%	-6.59%
CDX NA HY	108	0	0	CT10 (bp)	2.231%	-8.36	8.82
iTraxx Eur Main	52	-2	-2	USD Swap Spread 10Y (bp)	-3	2	0
iTraxx Eur XO	235	-3	3	USD Swap Spread 30Y (bp)	-30	4	3
iTraxx Eur Snr Fin	49	-2	-2	TED Spread (bp)	15	-12	-15
iTraxx Sovx WE	4	-2	-3	US Libor-OIS Spread (bp)	15	1	1
iTraxx Sovx CEEMEA	53	-2	2	Euro Libor-OIS Spread (bp)	3	0	0
					24-Jul	1W chg	1M chg
				AUD/USD	0.791	1.45%	4.34%
				USD/CHF	0.946	1.72%	2.76%
				EUR/USD	1.167	1.67%	4.36%
				USD/SGD	1.363	0.45%	1.83%
Korea 5Y CDS	57	0	6	DJIA	21,580	-0.27%	0.87%
China 5Y CDS	66	0	-1	SPX	2,473	0.54%	1.40%
Malaysia 5Y CDS	85	1	1	MSCI Asiax	650	0.98%	3.69%
Philippines 5Y CDS	73	1	-3	HSI	26,832	1.36%	4.53%
Indonesia 5Y CDS	116	0	2	STI	3,302	0.10%	2.87%
Thailand 5Y CDS	65	3	4	KLCI	1,759	0.23%	-1.13%
				JCI	5,763	-1.34%	-1.14%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
20-Jul-17	Oceanwide Holdings International 2017 Co	'B/NR/B'	USD400mn	3-year	7.75%
20-Jul-17	China Life Insurance (Overseas) Company Ltd, Hong Kong Branch	'A/NR/NR'	USD250mn	10NC5	3.35%
20-Jul-17	China Jinjiang Environment Holding Company Ltd	'BB-/Ba3/NR'	USD200mn	3-year	6.25%
20-Jul-17	Parkway Pantai Ltd	Not Rated	USD500mn	Perp NC5	4.25%
20-Jul-17	Mercatus Co-operative Ltd	Not Rated	SGD200mn	7-year	2.8%
19-Jul-17	Gemdale Ever Prosperity Investment Ltd	'NR/Ba3/NR'	USD200mn	5NC3	4.975%
19-Jul-17	Shandong Energy Australia Pty Ltd	'BB/NR/NR'	USD300mn	3-year	4.7%
19-Jul-17	Doosan Infracore Co	'NR/Aa2/NR'	USD300mn	3-year	CT3+102.5bps

Source: OCBC, Bloomberg

Rating changes (Cont'd): Moody's has downgraded Artsonig Pty Limited's (Artsonig) senior unsecured payment-in-kind notes to 'C' from 'Caa3' while keeping the corporate family rating (CFR) of Bis Industries Group Limited (Bis) unchanged at 'Caa1'. The outlook on Artsonig is stable, while the outlook on the Bis' CFR remains negative. The rating action reflects the debt-for-equity swap that is likely to happen, and this constitutes a default event under Moody's definition. Moody's states that they will re-assess Bis' credit profile post transaction as they acknowledge that the transaction will significantly reduce gross debt on Bis' balance sheet. Moody's has downgraded Singapore Telecommunications Limited's (SingTel) senior unsecured ratings to 'A1' from 'Aa3'. The outlook is stable. The rating action reflects SingTel's high leverage that is above the threshold allowed for an 'Aa3' rating. Similarly, Moody's has downgraded Optus Finance Pty Limited's (Optus) senior unsecured MTN ratings to 'A2' from 'A1'. The outlook is stable. The rating action reflects Optus's capital expenditure and dividend payments to SingTel which has led to a significant increase in debt.

Credit Headlines:

CapitaLand Ltd ("CAPL"): Following CAPL's announcement in early July (refer to [OCBC Asian Credit Daily – 5 July 2017](#)) of the acquisition of a further 60% in Quest Apartment Hotels ("Quest") by wholly-owned serviced apartment subsidiary, The Ascott Limited ("Ascott"), CAPL has further announced the acquisition of an 80% interest in US based Synergy Global Housing for USD33.7mn. While small, this transaction supports Ascott's expansion plans and expands CAPL's geographic footprint. Given the small size, the transaction does not alter CAPL's Positive Issuer Profile. (Company, OCBC)

Singapore Telecommunications Ltd ("SingTel"): Last Friday, Moody's downgraded SingTel's senior unsecured ratings to "A1" from "Aa3" due to the weakening of SingTel's financials in Debt/EBITDA and RCF/Debt. This came as a surprise to us as (1) Moody's reaffirmed its previous "Aa3" rating with a stable outlook only in June 2017 following SingTel's full year results, (2) there have not been any further releases of financials between June 2017 and last Friday, (3) Moody's had previously already acknowledged that SingTel's leverage is likely to be kept around 2.1x-2.3x following acquisitions and spectrum payments, which is high for a "Aa3" rating. However, we understand that Moody's has revised its expectations of SingTel's longer-term leverage to stabilize around 2.0x from below 1.8x. Nevertheless, we think that there has been no fundamental change to SingTel, and Moody's new rating of "A1" is now consistent with the ratings of "A+" by S&P and Fitch. As such, we continue to hold SingTel at a Positive Issuer Profile. Meanwhile, Moody's also downgraded the senior unsecured ratings of Optus from "A1" to "A2" as its debt/EBITDA rose to 1.8x (which Moody's previously in Dec 2016 expected the ratio to increase only to 1.7x). (Moody's, Bloomberg, OCBC)

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): SSREIT has announced that the agreement to acquire 72 Eunos Avenue 7 from Singapore Handicrafts Pte Ltd has ceased on 20 July 2017 as conditions precedent have not been fulfilled. All three proposed acquisitions announced in December 2016 has since been terminated. Effectively, we think the bulk of the SGD80.2mn in proceeds from the rights issue (carried out in January 2017) would have been used for debt repayment, instead of purchasing properties as originally intended. In December 2016, the REIT had announced the proposed divestment of 218 Pandan Loop for SGD14.8mn. The transaction is conditional upon receipt of approvals from authorities and expected to be completed in 1Q2017 (to date has not been completed). As at 31 March 2017, SSREIT faced SGD57.8mn of debt due in the next nine months and had a cash balance of SGD7.5mn (ie: obligations of ~SGD50mn). While we see the termination of 72 Eunos Avenue 7 as a credit positive, we continue to maintain SSREIT's issuer profile at Negative, pending outcome from its on-going strategic review. (Company, OCBC)

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