

March 7, 2017

Credit Headlines (Page 2 onwards): Ascott Residence Trust

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates trading 2-6bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in UOBSP 3.5%'29s, FCLSP 4.15%'27s, and better selling seen in OLAMSP 7%'49s, GENSSP 5.13%'49s. In the broader dollar space, the spread on JACI IG corporates rose 2bps to 192bps while the yield on JACI HY corporates rose 2bps to 6.67%. 10y UST yields rose 1bps to 2.49%, amid a swelling corporate issuance calendar, with 11 companies including McDonald's and Nordstrom's slated bond offerings within 10-year and/or 30-year tranches. 10y UST yields declined earlier in the day during European trading, led by gains in German 10-year bunds amid flight to safe haven assets after Alain Juppe declined to consider replacing Francois Fillon in the French presidential election.

New Issues: ICBC International Holdings Ltd. priced a USD650mn 3-year bond at CT3+110bps, tightening from initial guidance of CT3+125bps. The expected issue ratings are 'NR/A1/NR'. Noble Group Ltd. priced a USD750mn 5NC3 note at 8.75%, tightening from initial guidance of 9%. The expected issue ratings are 'NR/B2/BB+'. China SCE Property Holdings Ltd. priced a USD200mn 5NC3 bond at 5.875%. The expected issue ratings are 'B-/B2/NR'. HSBC Holdings Plc priced a USD5bn 2-tranche deal; with the USD2.5bn 6NC5 piece priced at CT5+125bps, tightening from initial guidance of CT5+140bps; and another USD2.5bn 11NC10 piece at CT10+155bps, tightening from initial guidance of CT10+175bps. The expected issue ratings are 'A/A1/AA-'. Lenovo Group Ltd. scheduled investor roadshows from 7 March for a potential USD senior bond issuance. Lenovo is also planning for a potential USD Perpetual issuance to repay notes issued to Google. Azure Nova International Finance Ltd. hired banks for a potential USD bond issuance (guaranteed by Bank of Communications Financial Leasing Co. ('A-/A2/A')). The expected issue ratings are 'NR/A2/A'. KEB Hana Bank has arranged fixed income investor meetings commencing on March 13, 2017 for potential USD notes issuance.

Table 1: Key Financial Indicators

	7-Mar	1W chg (bps)	1M chg (bps)		7-Mar	1W chg	1M chg
iTraxx Asiax IG	96	0	-12	Brent Crude Spot (\$/bbl)	55.96	0.67%	1.65%
iTraxx SovX APAC	27	1	-2	Gold Spot (\$/oz)	1,226.41	-1.76%	-0.60%
iTraxx Japan	52	0	-3	CRB	189.42	-0.24%	-1.02%
iTraxx Australia	84	-1	-9	GSCI	398.78	-0.57%	0.83%
CDX NA IG	61	-2	-5	VIX	11.24	-7.03%	-0.44%
CDX NA HY	108	0	1	CT10 (bp)	2.494%	10.44	10.12
iTraxx Eur Main	71	-2	-5	USD Swap Spread 10Y (bp)	-4	-2	3
iTraxx Eur XO	279	-13	-23	USD Swap Spread 30Y (bp)	-40	-3	1
iTraxx Eur Snr Fin	87	-5	-6	TED Spread (bp)	41	-15	-13
iTraxx Sovx WE	20	-1	-4	US Libor-OIS Spread (bp)	24	-1	-11
iTraxx Sovx CEEMEA	64	-1	-7	Euro Libor-OIS Spread (bp)	2	0	0
					7-Mar	1W chg	1M chg
				AUD/USD	0.759	-0.82%	-0.45%
				USD/CHF	1.012	-0.59%	-1.38%
				EUR/USD	1.058	0.07%	-0.94%
				USD/SGD	1.412	-0.63%	0.42%
Korea 5Y CDS	48	2	1	DJIA	20,954	0.56%	4.30%
China 5Y CDS	90	-2	-17	SPX	2,375	0.23%	3.59%
Malaysia 5Y CDS	110	0	-15	MSCI Asiax	561	-0.62%	1.49%
Philippines 5Y CDS	86	1	-7	HSI	23,647	-0.39%	1.35%
Indonesia 5Y CDS	129	-1	-15	STI	3,123	0.84%	1.66%
Thailand 5Y CDS	56	1	-11	KLCI	1,731	2.21%	2.51%
				JCI	5,422	0.65%	0.75%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
7-Mar-17	ICBC International Holdings Ltd.	"NR/A1/NR"	USD650mn	3-year	CT3+110bps
7-Mar-17	Noble Group Ltd.	"NR/B2/BB+"	USD750mn	5NC3	8.75%
7-Mar-17	China SCE Property Holdings Ltd.	"B-/B2/NR"	USD200mn	5NC3	5.875%
7-Mar-17	HSBC Holdings Plc	"A/A1/AA-"	USD2.5bn	6NC5	CT5+125bps
7-Mar-17	HSBC Holdings Plc	"A/A1/AA-"	USD2.5bn	11NC10	CT10+155bps
3-Mar-17	Gome Electrical Appliance Holdings Ltd.	"BB-/NR/NR"	USD400mn	3-year	5%
2-Mar-17	ICICI Bank Ltd	"BBB-/Baa3/NR"	USD300mn	5.5-year	CT5+135bps
2-Mar-17	China Cinda Finance (2017) I Ltd.	"A-/Baa1/A"	USD300mn	3-year	CT3+150bps
2-Mar-17	China Cinda Finance (2017) I Ltd.	"A-/Baa1/A"	USD1.3bn	5-year	CT5+165bps
2-Mar-17	China Cinda Finance (2017) I Ltd.	"A-/Baa1/A"	USD700mn	7-year	CT7+180bps

Source: OCBC, Bloomberg

New Issues (Cont'd): The Export-Import Bank of China hired banks for a potential USD 5-year/10-year bond issuance and scheduled investor calls from 6 March. The expected issue ratings are 'AA-/Aa3/NR'. Regal Hotels International Holdings Ltd. scheduled investor roadshows from 7 March for a potential USD Perpetual issuance.

Rating Changes: S&P revised Anheuser-Busch InBev S.A.'s (AB InBev) ratings outlook to negative from stable. In addition, S&P affirmed AB InBev's and its related entities' 'A-' corporate credit rating and issue ratings. The rating action reflects the heightened risks AB InBev faces in achieving its deleveraging targets. S&P also revised U.K-based brewer SABMiller PLC's and Foster's Group Ltd.'s (acquired by AB InBev) outlooks to negative from stable, affirmed their 'A-' corporate credit and issue ratings, and then withdrew all ratings. Moody's affirmed CIFI Holdings (Group) Co. Ltd.'s (CIFI) 'Ba3' corporate family rating and the 'B1' senior unsecured rating on its USD400mn bonds due 2020. At the same time, Moody's revised CIFI's ratings outlook to positive from stable. The rating action reflects Moody's expectation that CIFI will improve its credit metrics over the next 12-18 months, owing to its strong sales execution and prudent land acquisition strategy. Moody's affirmed Deutsche Bank AG's (Deutsche) ratings following the announcement of a fully underwritten EUR8bn raise of common equity. The outlook on Deutsche's long-term debt ratings remains stable. Moody's commented that these measures are positive developments for Deutsche's bondholders and the capital raising gives Deutsche more time and financial leeway to achieve the objectives of the revised 2020 plan. Fitch affirmed PT Indika Energy Tbk's (Indika) 'CCC' Issuer Default Ratings (IDR), with a positive outlook. The rating action reflects Fitch's expectation of improvement in Indika's cash flows due to higher thermal coal prices. Moreover, Fitch commented that the higher cash generation ability has substantially improved the company's ability to refinance its 2018 notes, and the need for any debt restructuring has receded significantly.

Credit Headlines:

Ascott Residence Trust ("ART"): ART is launching a fully underwritten renounceable rights issue to raise gross proceeds of SGD442.7mn (29 rights unit for every 100 existing units) at SGD0.919 per unit (21.5% discount to its closing price of SGD1.17 as at 6 March 2016). 86.2% of gross proceeds will partially fund Ascott Orchard Singapore ("AOS"), a serviced apartment property from its Sponsor. AOS is the former Somerset Orchard which ART had divested to its Sponsor for redevelopment purposes in 2012 (and then to be bought back post-TOP). Despite the current soft environment of the Singapore luxury hospitality sector, ART is buying the property at the purchase consideration committed upfront in 2012 (ie: there is no mark-to-market). AOS has soft-opened in December 2016 and a Master Lease agreement is proposed to be entered into with the Sponsor with an expected EBITDA yield of 4.5%. Concurrently, ART has also announced the proposed acquisition of 2 properties in Germany, also from the Sponsor, amounting to SGD97.1mn. The acquisition for these 2 properties is subject to unitholders approval and if successful will also partly be funded via the rights issue (SGD56mn). Both properties are proposed to be master leased to the Sponsor. The remaining gross proceeds is expected to go towards paying for costs on the rights issue. The Sponsor has undertaken to subscribe fully for its pro-rata rights entitlement (~44.2% of the rights issue), hence effectively the acquisitions will be funded by part-script (sponsor's entitlement) and part-cash (other shareholder's entitlement). ART has guided that its headline aggregate leverage will fall from 39.8% as at 31 December 2016 to 37.0% post acquisition. Based on our estimates, ART's adjusted aggregate leverage (taking 50% of perpetual as debt) was 43.9% as at 31 December 2016 and this would go down to 40.7%. We see the rights issue as a credit positive to bondholders which helps restore ART's weakened standalone credit profile. We maintain ART's issuer profile at Neutral and see a low risk of Moody's downgrading its Baa3/Negative rating on ART. (Company, OCBC)

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